



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT OF THE DEPARTMENT OF EDUCATION**

**Made as Part of the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 2000**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELE. (502) 564-5841  
FAX (502) 564-2912**



**EXECUTIVE SUMMARY**  
**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS**  
**AUDIT OF THE DEPARTMENT OF EDUCATION**  
**FOR THE YEAR ENDED JUNE 30, 2000**

**BACKGROUND:**

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth of Kentucky. To comply with these requirements we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one organizational unit of the Commonwealth, the Department of Education.

The Department of Education provides, among other things, management and financial support for Kentucky's 176 school districts. Kentucky's finance system, called Support Education Excellence in Kentucky, is designed to ensure that funds for education are distributed in a way that provides equal educational opportunities for all Kentucky children. This means districts in poor areas that produce less local tax revenue receive more state funds than districts in wealthier areas. In addition to the basic level of support, districts that choose to levy taxes above the minimum qualify for more state funds. The total Support Education Excellence in Kentucky budget for FY 2000 was \$2.184 billion, with the total State Education Budget being \$3.175 billion.

**EXPENDITURES:**

The Department of Education expended federal awards in the following manner:

- \$425,414,345 in cash expenditures from seven (7) federal grantors

**SUMMARY OF AUDITOR'S RESULTS:**

**Financial Statement Accounts**

Compliance: No instances of noncompliance.

Internal Control Over Financial Reporting: No instances of reportable conditions.

**Federal Awards and Schedule of Expenditures of Federal Awards**

Compliance: No instances of noncompliance.

Internal Control Over Compliance: No instances of reportable conditions.

**GENERAL TOPICS OF OTHER MATTERS:**

- Procedures needed to improve completeness and accuracy of Schedule of Expenditures of Federal Awards reporting.



## **CONTENTS**

### **Page**

### **INTRODUCTION**

Introduction .....	2
Schedule Of Expenditures Of Federal Awards .....	2
Schedule Of Findings And Questioned Costs .....	2
Summary Schedule Of Prior Audit Findings .....	3
Audit Approach .....	3
List Of Abbreviations/Acronyms Used In This Report .....	4

### **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Schedule Of Expenditures Of Federal Awards .....	8
Notes To The Schedule of Expenditures Of Federal Awards .....	12

### **REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of The General-Purpose Financial Statements Performed In Accordance With Government Auditing Standards.....	20
Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133 And On The Schedule of Expenditures Of Federal Awards .....	22

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Section 1 - Summary Of Auditor's Results.....	28
Section 2 - Financial Statement Findings.....	29
Section 3 - Federal Award Findings And Questioned Costs.....	30

#### **Other Matters Relating To Internal Control And/Or Compliance:**

<b><u>FINDING 00-DEPARTMENT OF EDUCATION-1:</u></b> The Department of Education Should Reconcile To The Management Administrative Reporting System (MARS) To Ensure Accurate And Complete Reporting Of Federal Monies .....	30
---	----

### **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

Summary Schedule Of Prior Audit Findings .....	34
--	----



## **INTRODUCTION**





**DEPARTMENT OF EDUCATION  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000**

**Introduction**

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**Schedule of Expenditures of Federal Awards**

This report contains the Schedule of Expenditures of Federal Awards for the Department of Education. The Notes to the Schedule of Expenditures of Federal Awards follows the schedule to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested the Department of Education to prepare worksheets of federal financial assistance. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. The Department of Education was also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

**Schedule of Findings and Questioned Costs**

The Schedule of Findings and Questioned Costs consists of three sections:

- Summary of Auditor's Results
- Financial Statement Findings
- Federal Award Findings and Questioned Costs

Each audit finding number and the audit finding's classification (as reportable, material, or other matters) is provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The second part is the Financial Statement Findings. This part lists all the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliances, followed by other matters.

**DEPARTMENT OF EDUCATION  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**Summary Schedule of Prior Audit Findings**

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1999 (as well as any previous findings which have not been resolved) are reported in the agency's Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2000. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matters. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action. If a finding has been reclassified from material to reportable, for instance, the finding will appear in the material finding section of the summary schedule and the comment will indicate the reclassification. In the following year, the finding will appear in the reportable section of the summary schedule.

**Audit Approach**

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and generally accepted auditing standards. The scope of the statewide single audit for the year ended June 30, 2000 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Department of Education, to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Department of Education administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

**DEPARTMENT OF EDUCATION  
INTRODUCTION  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**Audit Approach (Continued)**

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.
- Determining if the Department of Education has internal controls to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

**List Of Abbreviations/Acronyms Used In This Report**

APA	Auditor of Public Accounts
CFDA	Catalog of Federal Domestic Assistance
Commonwealth	Commonwealth of Kentucky
FY	Fiscal Year
HIV	Human Immunodeficiency Virus
KDE	Kentucky Department of Education
KRS	Kentucky Revised Statutes
MARS	Management Administrative Reporting System
MOA	Memorandum of Agreement
N/A	Not applicable
OMB	Office of Management and Budget
SEEK	Support Education Excellence in Kentucky
U.S.	United States

THIS PAGE LEFT BLANK INTENTIONALLY

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**DEPARTMENT OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2000**

State Agency Federal Grantor CFDA #/ Program Title		Pass-Through Grantors #	Expenditures	
			Cash	Noncash
<u>U.S. Department of Agriculture</u>				
Direct Programs:				
10.553	School Breakfast Program (Note 2) (Note 3)	N/A	\$ 30,065,488	
10.555	National School Lunch Program (Note 2) (Note 3)	N/A	95,202,190	
10.556	Special Milk Program for Children (Note 2) (Note 3)	N/A	74,706	
10.558	Child and Adult Care Food Program (Note 2) (Note 3)	N/A	22,635,698	
10.559	Summer Food Service Program for Children (Note 2) (Note 3)	N/A	2,845,436	
10.560	State Administrative Expenses for Child Nutrition	N/A	1,594,648	
10.564	Nutrition Education and Training Program	N/A	34,005	
NA	Kentucky Demonstration (Note 4)	N/A		
<u>U.S. Department of Defense</u>				
Direct Program:				
NA	Teacher and Teacher's Aide Placement Assistance Program	N/A	73,963	
<u>U.S. Department of Labor</u>				
Passed Through From Cabinet For Workforce Development				
17.250	Job Training Partnership Act (Note 3)	N/A	481,042	
<u>U.S. Appalachian Regional Commission</u>				
Direct Program:				
23.001	Appalachian Regional Development (Note 4)	N/A		
<u>U.S. Department of Education</u>				
Direct Programs:				
84.010	Title I Grants To Local Educational Agencies (Note 2) (Note 3)	N/A	131,122,306	
84.011	Migrant Education - Basic State Grant Program (Note 3)	N/A	10,321,118	
84.013	Title I Program For Neglected And Delinquent Children (Note 3)	N/A	8,570	

See accompanying notes to the Schedule of Expenditures of Federal Awards

**DEPARTMENT OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2000  
(Continued)**

State Agency Federal Grantor CFDA #/ Program Title		Pass-Through Grantors #	Expenditures	
			Cash	Noncash
U.S. Department of Education (Continued)				
Direct Programs (Continued):				
84.023	Special Education - Innovation and Development (Note 3)	N/A	\$ 167,022	
84.025	Services For Children With Deaf-Blindness (Note 3)	N/A	216,352	
84.027	Special Education - Grants to States (Note 2) (Note 3)	N/A N/A	59,150,693	
84.029	Special Education - Personnel Development And Parent Training	N/A	5,054	
84.162	Immigrant Education (Note 3)	N/A	100,106	
84.173	Special Education - Preschool Grants (Note 2) (Note 3)	N/A	10,407,982	
84.185	Byrd Honors Scholarships (Note 3)	N/A	519,000	
84.186	Safe And Drug-Free Schools And Communities - State Grants (Note 3)	N/A	7,001,391	
84.194	Bilingual Education Support Services (Note 3)	N/A	31,033	
84.196	Education For Homeless Children And Youth (Note 3)	N/A	467,078	
84.213	Even Start -State Educational Agencies (Note 3)	N/A	1,852,254	
84.215	Fund For The Improvement Of Education (Note 3)	N/A	330,275	
84.216	Capital Expenses (Note 3)	N/A	250,369	
84.276	Goals 2000 - State And Local Education Systemic Improvement Grants (Note 3)	N/A	7,100,000	
84.281	Eisenhower Professional Development State Grants (Note 3)	N/A N/A	4,166,100	
84.298	Innovative Education Program Strategies (Note 3)	N/A	6,102,129	
84.318	Technology Literacy Challenge Fund Grant (Note 3)	N/A	2,080,349	
84.323	Special Education-State Program Improvement Grants for Children with Disabilities (Note 3)	N/A	679,723	
84.326	Special Education- Technical Assistance and Dissemination to Improve Service and Results for Children with Disabilities (Note 3)	N/A	75,180	

See accompanying notes to the Schedule of Expenditures of Federal Awards



**DEPARTMENT OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2000  
(Continued)**

State Agency Federal Grantor CFDA #/ Program Title	Pass-Through Grantors #	Expenditures	
		Cash	Noncash
84.327 Special Education - Technology and Media Services for Individuals with Disabilities (Note 3)	N/A	\$ 189,048	
84.330 Advanced Placement Incentive Program (Note 4)	N/A		
84.332 Comprehensive School Reform Demonstration (Note 3)	N/A	2,024,041	
84.338 Reading Excellence (Note 3)		16,063	
84.340 Class Size Reduction (Note 2) (Note 3)	N/A	19,641,600	
84.923 Appalachian Regional Assistance (Note 4)	N/A		
<b>Passed Through From Cabinet for Health Services:</b>			
84.181 Special Education - Grants for Infants and Families with Disabilities (Note 3)	N/A	62,398	
<b>Passed Through From Cabinet For Workforce Development:</b>			
84.048 Vocational Education - Basic Grants to States (Note 2) (Note 3)	V048A90017, V048A80018	7,219,869	
84.126 Rehabilitation Services - Vocational Rehabilitation Grants To States (Note 2) (Note 3)	N/A	16,857	
84.243 Tech - Prep Education	V243A90088	5,408	
<b><u>U.S. Department of Health and Human Services</u></b>			
<b>Direct Programs:</b>			
93.600 Head Start (Note 3)	N/A	166,273	
93.938 Cooperative Agreement To Support Comprehensive School Health Programs To Prevent The Spread Of HIV and Other Important Health Problems (Note 3)	N/A	181,996	

See accompanying notes to the Schedule of Expenditures of Federal Awards

**DEPARTMENT OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FEDERAL ASSISTANCE PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2000  
(Continued)**

State Agency		Pass-Through Grantors #	Expenditures	
Federal Grantor			Cash	Noncash
CFDA #/ Program Title				
<u>U.S. Department of Health and Human Services (Continued)</u>				
Passed Through From Cabinet for Health Services:				
93.630	Developmental Disabilities Basic Support and Advocacy Grants (Note 4)	N/A		
93.945	Assistance Programs for Chronic Disease Prevention and Control (Note 3)	CCU416126 PH99-000030	\$ 396,708	
<u>U.S. Corporation For National And Community Service</u>				
Direct Program:				
94.004	Learn and Serve America - School and Community Based Programs (Note 3)	N/A	332,824	
DEPARTMENT OF EDUCATION			\$ 425,414,345	

See accompanying notes to the Schedule of Expenditures of Federal Awards

**DEPARTMENT OF EDUCATION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2000**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies**

**Purpose of the Schedule** - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

**Basis of Presentation** - The accompanying schedule is presented in accordance with OMB Circular A-133. As defined in the Circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities or direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . .” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. Accordingly, the accompanying schedule includes the cash federal financial assistance programs; the Department of Education had no noncash federal financial assistance for the year ended June 30, 2000. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the “Other Federal Assistance” subheading

**Reporting Entity** - The accompanying schedule includes all federal financial assistance programs administered by the Department of Education. The Department of Education is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth entity for financial reporting purposes.

**Basis of Accounting** - The cash expenditures on the accompanying schedule are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the accrual/modified accrual basis or accrual basis of accounting, depending on fund type. Therefore, the schedule may not be directly traceable to the general-purpose financial statements in all cases.

**DEPARTMENT OF EDUCATION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)**

**Inter-agency Activity** - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Department of Education's schedule:

- (a) Federal moneys may be received by one state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - subrecipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the schedule as follows:
- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
  - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by the Department of Education and used to purchase goods or services from another state agency are reported in the schedule as an expenditure.

**Note 2 - Type A Programs**

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeds \$14 million for FY 2000. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs shall be considered as one program for determining Type A programs.

**DEPARTMENT OF EDUCATION**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2000**  
**(CONTINUED)**

**Note 2 - Type A Programs (Continued)**

The Department of Education had the following cash programs that met the Type A program definition for the year ended June 30, 2000, some of which were administered by more than one state agency. The Department of Education identified two clusters, which included more than one federal program, among the Type A programs. These Type A programs and clusters were:

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditures</b>
10.553	School Breakfast Program	\$ 30,065,488 <b>a</b>
10.555	National School Lunch Program	95,202,190 <b>a</b>
10.556	Special Milk Program for Children	74,706 <b>a</b>
10.558	Child and Adult Care Food Program	22,635,698
10.559	Summer Food Service Program for Children	2,845,436 <b>a</b>
84.010	Title I Grants to Local Educational Agencies	131,122,306
84.027	Special Education – Grants to States	59,150,693 <b>b</b>
84.048	Vocational Education – Basic Grants to States	7,219,869 <b>c</b>
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	16,857 <b>c</b>
84.173	Special Education – Preschool Grants	10,407,982 <b>b</b>
84.340	Class Size Reduction	19,641,600
<b>Total Type A Programs</b>		<u><u>\$378,382,825</u></u>

Identified clusters include:

**a** – Child Nutrition Cluster

**b** – Special Education Cluster

**c** – Passed Through from Cabinet for Workforce Development

**Note 3 - Subrecipient Activity**

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

<b>CFDA #</b>	<b>Federal Program Name</b>	<b>Amount Sent</b>
10.553	School Breakfast Program	\$ 30,065,488
10.555	National School Lunch Program	95,202,190
10.556	Special Milk Program for Children	74,706
10.558	Child and Adult Care Food Program	22,635,698

**DEPARTMENT OF EDUCATION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**Note 3 - Subrecipient Activity (Continued)**

<b>CFDA #</b>	<b>Federal Program Name</b>	<b>Amount Sent</b>
10.559	Summer Food Service Program for Children	\$ 2,745,593
17.250	Job Training Partnership Act	481,042
84.010	Title I Grants to Local Educational Agencies	129,634,826
84.011	Migrant Education - Basic State Grant Program	10,120,698
84.013	Title I Program for Neglected and Delinquent Children	1,275
84.023	Special Education - Innovation and Development	167,022
84.025	Services for Children with Deaf - Blindness	216,352
84.027	Special Education - Grants to States	56,288,365
84.048	Vocational Education - Basic Grants to States	6,873,350
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	16,857
84.162	Immigrant Education	93,018
84.173	Special Education - Preschool Grants	9,774,364
84.181	Special Education - Grants for Infants and Families with Disabilities	62,398
84.185	Byrd Honors Scholarships	519,000
84.186	Safe and Drug-Free Schools and Communities - State Grants	6,611,122
84.194	Bilingual Education Support Services	20,430
84.196	Education for Homeless Children and Youth	430,680
84.213	Even Start - State Educational Agencies	1,821,745
84.215	Fund for the Improvement of Education	286,332
84.216	Capital Expenses	250,369
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	6,417,826
84.281	Eisenhower Professional Development State Grants	3,881,789
84.298	Innovative Education Program Strategies	5,424,160
84.318	Technology Literacy Challenge Fund Grants	2,080,349
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	652,890
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	75,180

**DEPARTMENT OF EDUCATION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**Note 3 - Subrecipient Activity (Continued)**

<b>CFDA #</b>	<b>Federal Program Name</b>	<b>Amount Sent</b>
84.327	Special Education - Technology and Media Services for Individuals with Disabilities	\$ 189,048
84.332	Comprehensive School Reform Demonstration	1,947,200
84.338	Reading Excellence	1,224
84.340	Class Size Reduction	19,641,600
93.600	Head Start	68,077
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	72,499
93.945	Assistance Programs for Chronic Disease Prevention and Control	355,681
94.004	Learn and Serve America - School and Community Based Programs	<u>295,850</u>
<b>Total Amount Sent to Subrecipients</b>		<b>\$ <u>415,496,293</u></b>

**Note 4 - Zero Expenditure Programs**

These programs had no expenditures during the year ended June 30, 2000. They include programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

THIS PAGE LEFT BLANK INTENTIONALLY



## **REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL**





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Marlene M. Helm, Secretary  
Education, Arts and Humanities  
Gene Wilhoit, Commissioner  
Department of Education

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The General-Purpose  
Financial Statements Performed In Accordance With *Government Auditing Standards*

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2000, we have audited expenditures for the General Fund and the Support Education Excellence in Kentucky (SEEK) program Special Revenue Funds, consisting of federal fund expenditures and receipts, accounts payable and accounts receivable of the Department of Education, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated February 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth of Kentucky's financial statements are free of material misstatement, we performed tests of the Department of Education's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The General-Purpose  
Financial Statements Performed In Accordance With *Government Auditing Standards*  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider being material weaknesses.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

February 28, 2001



EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Marlene M. Helm, Secretary  
Education, Arts and Humanities  
Gene Wilhoit, Commissioner  
Department of Education

Report On Compliance With Requirements Applicable To Each  
Major Program And On Internal Control Over Compliance In Accordance  
With OMB Circular A-133 And On The Schedule of Expenditures of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Department of Education, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The Department of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Department of Education's management. Our responsibility is to express an opinion on the Department of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department of Education's compliance with those requirements.

In our opinion, the Department of Education complied, in all material respects, with their requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Report On Compliance With Requirements Applicable To Each  
Major Program And On Internal Control Over Compliance In Accordance  
With OMB Circular A-133 And On The Schedule of Expenditures of Federal Awards  
(Continued)

Internal Control Over Compliance

The management of the Department of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we did note other matters involving the internal control over compliance that we have reported to the management of the Department of Education and are described in the accompanying schedule of findings and questioned costs of this report.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the Commonwealth as of and for the year ended June 30, 2000, and have issued our report thereon dated February 28, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards of the Department of Education is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements.

As described in Note 1, the schedule of expenditures of federal awards of the Department of Education is intended to present only that portion of the expenditures of federal awards of the Commonwealth that is attributable to the transactions of the Department of Education.

Report On Compliance With Requirements Applicable To Each  
Major Program And On Internal Control Over Compliance In Accordance  
With OMB Circular A-133 And On The Schedule of Expenditures of Federal Awards  
(Continued)

Schedule of Expenditures of Federal Awards (Continued)

The general-purpose financial statements of the Commonwealth are prepared on an accrual/modified accrual basis of accounting. However, as described in Note 1, the schedule of expenditures of federal awards of the Department of Education is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedule of expenditures of federal awards is not intended to present the expenditures of federal awards in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the schedule of expenditures of federal awards of the Department of Education is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Schedule of Expenditures of Federal Awards -  
February 28, 2001

July 27, 2001





**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



**DEPARTMENT OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statement Accounts**

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements, which included the Department of Education, as of and for the year ended June 30, 2000.

Internal Control Over Financial Reporting: Our consideration of the Department of Education's internal control over financial reporting disclosed no reportable conditions.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Federal Awards And Schedule Of Expenditures Of Federal Awards**

Compliance: We issued an unqualified opinion on the Department of Education's compliance with the requirements applicable to each of its major federal programs.

Internal Control Over Compliance: Our consideration of the Department of Education's internal control over compliance disclosed no reportable conditions. Our audit also disclosed one other matter relating to the internal control over compliance that we reported to Department of Education management.

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Department of Education's Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with accounting principles generally accepted in the United States of America as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth's general-purpose financial statements taken as a whole.

**Identification Of Major Programs Audited**

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section \_\_.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section \_\_.215(c)." Section \_\_.520 states, "The auditor shall use a risk-based approach to determine which Federal programs are major programs."

**DEPARTMENT OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)**

**Identification Of Major Programs Audited (Continued)**

The following is a list of Type A programs audited:

<b><u>CFDA #</u></b>	<b><u>Program Title</u></b>	<b><u>Expenditures</u></b>
<b>Child Nutrition Cluster</b>		
<b>10.553</b>	School Breakfast Program	\$ 30,065,488
<b>10.555</b>	National School Lunch Program	95,202,190
<b>10.556</b>	Special Milk Program for Children	74,706
<b>10.559</b>	Summer Food Services Program for Children	<u>2,845,436</u>
	Total Child Nutrition Cluster	<u>\$128,187,820</u>
<b>Special Education Cluster</b>		
<b>84.027</b>	Special Education - Grants to States	\$59,150,693
<b>84.173</b>	Special Education - Preschool Grants	<u>10,407,982</u>
	Total Special Education Cluster	<u>\$69,558,675</u>
<b>10.558</b>	Child and Adult Care Food Program	\$22,635,698
<b>84.010</b>	Title I Grants To Local Educational Agencies	131,122,306
<b>84.340</b>	Class Size Reduction	<u>19,641,600</u>
		<u>\$173,399,604</u>
	Total Type A Programs	<u>\$371,146,099</u>

**Dollar Threshold Used To Distinguish Between Type A And Type B Programs**

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$14,000,000. No Type B programs were audited in FY 2000.

**Auditee Qualify As Low-Risk Auditee?**

The Commonwealth of Kentucky did not qualify as a low-risk auditee.

**SECTION 2 - FINANCIAL STATEMENT FINDINGS**

There were no financial statement audit findings.

**DEPARTMENT OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Other Matters Relating To Internal Control And/Or Compliance:**

**FINDING 00-KDE-1: The Department Of Education Should Reconcile To The Management Administrative Reporting System (MARS) To Ensure Accurate And Complete Reporting Of Federal Monies**

---

State Agency: Department of Education

Federal Program: Various

Federal Agency: Various

Pass-Through Agency: Not Applicable

Compliance Area: Not Applicable (Internal Control)

Amount of Questioned Costs: None

We examined the Department of Education's Schedule of Expenditures of Federal Awards grants for the period July 1, 1999 to June 30, 2000. During our examination, we noted that the Department of Education had not performed a complete reconciliation of the Schedule of Expenditures of Federal Awards to MARS. We also noted there were no pass-through awards included in the notes submitted with the Schedule of Expenditures of Federal Awards.

Auditee requirements, as stated in Statement of Position 98-3, section 5.3, states, "Circular A-133 also requires the auditee to identify in its accounts all federal awards received and expended, as well as the federal programs under which they were received. Federal programs and awards identification includes, as applicable, the CFDA title and number, the award number and year, the name of the federal granting agency, and the name of the pass through-entity."

Failure to reconcile to MARS resulted in the Department of Education's Schedule of Expenditures of Federal Awards having numerous mathematical inaccuracies. The lack of reconciliation increases the chances of incorrect amounts being reported on the Schedule of Expenditures of Federal Awards.

All notes to the Schedule of Expenditures of Federal Awards must be completed accurately in order to correctly present all pass-through awards for FY 2000 as required by OMB Circular A-133.

**DEPARTMENT OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

**SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Other Matters Relating To Internal Control And/Or Compliance: (Continued)**

**FINDING 00-KDE-1: The Department Of Education Should Reconcile To The Management Administrative Reporting System (MARS) To Ensure Accurate And Complete Reporting Of Federal Monies (Continued)**

---

**Recommendation**

We recommend the following:

- To ensure the accuracy and completeness of Schedule of Expenditures of Federal Awards reporting, agency personnel should reconcile grant information to MARS. The reconciliation should include both expenditures and receipts, on a grant-by-grant basis. This will ensure that Schedule of Expenditures of Federal Awards will be accurately reported.
- Pass-through award amounts need to be identified in the notes to the Schedule of Expenditures of Federal Awards as transfers-in and transfers-out as applicable. Pass-throughs need to be supported by Memorandum of Agreement, Master Agreement, or other Contract documentation with the other agency involved.
- Department of Education's Schedule of Expenditures of Federal Awards needs to be reviewed for completeness and accuracy by an agency supervisor prior to submission.

**Management's Response and Corrective Action Plan**

*The Department of Education clearly understands the criteria and findings and will do everything possible to insure the product becomes error free and fully reconciled.*

- 1. The reconciliation will include both expenditures and receipts on a grant-by-grant basis to the MARS system.*
- 2. The pass-through funds will be fully identified with the appropriate notes indicating transfers in and out. Notations will also include the fact that MOA's or other contract documents fully support this function.*
- 3. To insure the accuracy, the individual responsible for this project has been apprised concerning this agency's requirements that the schedule be accurate in all specification. Also, cross training of staff will be done and the Division Director of Financial and Materials Management will be required to certify its accuracy to the Office Head for Internal Administration and Support. This fact will be in writing and be included as a part of the final document. The Office Head will indicate concurrence and approval on the letter of certification.*

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**





**DEPARTMENT OF EDUCATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
No findings for this section.					
<b><u>Material Weaknesses/ Noncompliances</u></b>					
No findings for this section.					
<b><u>Other Matters</u></b>					
<i>Audit findings that have been fully corrected:</i>					
FY 99	99-KDE-1	The Division of Program Resources Should Implement Procedures To Ensure That District Plan Review Checklists Are Completed Accurately	84.010	\$0	This comment has been resolved.
FY 99	99-KDE-2	The Division of Program Resources Should Implement Procedures To Ensure All Checklists Performed During Reviews Are Complete	84.010	0	This comment has been resolved.
FY 99	99-KDE-3	The Division of School And Community Nutrition Should Improve Procedures Over The Review Process	10.558 and 10.559	0	This comment has been resolved.
FY 99	99-KDE-4	The Division of School Finance Should Implement Follow-up Procedures To Ensure Required Single Audits For Non-Profit Entities Are Obtained And Reviewed In A Timely Manner	NA	0	This comment has been resolved.
FY 99	99-KDE-4	The Division of Exceptional Children Services Should Implement Procedures To Require Signatures From Authorized Personnel Reviewing and Approving District Applications	84.027 and 84.173	0	This comment has been resolved.

*(2) Audit findings not corrected or partially corrected:*

No findings for this section.

**DEPARTMENT OF EDUCATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2000  
(CONTINUED)**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
------------------------	-----------------------	----------------	------------------------	-----------------------------	-----------------

**Other Matters (Continued)**

*(3) Corrective action taken is significantly different from corrective action previously reported:*

No findings for this section.

*(4) Audit finding is no longer valid:*

No findings for this section.

